

CHAPTER 13 FINANCING THE STATE FUNDED HIGHWAY PROGRAM

CONTENTS

| Section | Subject | Page Number |
|---------|----------------------------------------|-------------|
| 13.1 | STATE BUDGET PROCESS | 13-1 |
| | Executive Branch | 13-1 |
| | Legislature | 13-1 |
| | CTC | 13-1 |
| | Budget Process Calendar | 13-2 |
| | Budget Timeline | 13-2 |
| 13.2 | PROGRAM MANAGEMENT | 13-4 |
| | Budgeted Funds | 13-4 |
| 13.3 | PROJECT EXPENDITURES | 13-5 |
| | Agreements | 13-5 |
| | Invoices | 13-5 |
| 13.4 | FUTURE FINANCING RECOMMENDATIONS | 13-6 |

CHAPTER 13 FINANCING THE STATE FUNDED HIGHWAY PROGRAM

13.1 STATE BUDGET PROCESS

The State budget process is a continuous operation carried out at various levels within the State of California. The process includes the development, review and adoption of the State's annual financial plan or budget. There are two major decision-making groups in the budget process: the Governor (Executive Branch), and the Legislature. Together, they determine what is or is not included in the budget. Separately, each plays a distinct role in the development and approval of the budget.

EXECUTIVE BRANCH

Article IV, Section 12, of the State Constitution requires the Governor to annually submit to the Legislature, by January 10, a budget for the upcoming fiscal year. The Governor assigns the responsibility for the preparation of the budget to the Director of the Department of Finance and his staff. The Department of Finance works with the various Agencies and Departments on the preparation of the Governor's Budget. The Agency's Secretaries, as a part of the Governor's Cabinet, are called upon to guide the Departments for which they have responsibility. The Departments, in turn, are responsible for the development of the budget for their program areas on behalf of the Governor. It is also the Departments' responsibility to administer and carry out the decisions made during the budget process.

LEGISLATURE

Article IV, Section 12, of the State Constitution requires the Legislature to adopt an annual budget. All funds under the custody of the State (this includes Federal-aid funds) must be appropriated by the Legislature before they can be expended. The Legislature approaches its consideration of the Governor's Budget, as it does for all other legislation, as a representative body of the people of the State of California. Since the Government achieves most of its objectives through programs and activities funded by the budget, its review by the Legislature including input from the public, has direct impact upon State policy and may result in significant changes to existing program objectives and activities. The Legislature assigns the in-depth review of the Governor's Budget to the Legislative Analyst's Office which is a non-partisan staff to both Houses of the Legislature. The Legislative Analyst's Office makes recommendations to the Legislature after this review.

CTC

An additional decision-making body in directing transportation policy and programs is the California Transportation Commission (CTC). The CTC plays a dual role by providing input to the Legislature on the adequacy of the Department's Budget in meeting the State transportation objectives and goals, as well as participating in the administration of the budgeted funds for the Department. The primary responsibility for the CTC lies in its authority to allocate funds for all capital projects and local assistance funds which have been appropriated in the annual budget.

THE BUDGET PROCESS CALENDAR

| <u>DATE</u> | <u>ACTIVITY</u> |
|------------------|----------------------------------------------------------------------|
| May | 1 Budget Guidelines Issued |
| June | 2. Finance Budget Policies |
| April-June | 3. District/Divisions Develop Budget Requests |
| June | 4. Program Managers Formulate Issues |
| June-July | 5. Budgets reviews Preliminary BCPs |
| July-August | 6. Director's Decision |
| September 15 | 7. Caltrans Proposed Budget to BT&H Agency and Department of Finance |
| October-November | 8. BT&H Agency hearings |
| November | 9. Governor's Review |
| December 1 | 10. BCPs to Legislative Analyst |
| January 10 | 11. Governor's Budget - Budget Bill |
| February | 12. CTC Response to Legislature |
| February | 13. Legislative Analyst's Report |
| March-April | 14. Response to Legislative Analyst Report |
| April | 15. Budget Augmentation |
| March April | 16. Supplemental Legislative Analyst Report |
| April-June | 17. Legislative Review |
| June 30 | 18. Governor Signs Budget Bill |

BUDGET TIMELINE

The following describes the major activities of the budget process:

1. Budget Guidelines Issued (May - 14 months prior to fiscal year)

Caltrans - Division of Budgets (Budgets) issues budget guidelines to the districts/divisions and the program managers/advisors.

2. Finance Budget Policies (June)

Various Budget Letters, price data, and schedules are issued by the Departments of Finance and General Services, and the State Controller, as part of the budget process.

3. Districts/Divisions Develop Budget Requests (April - June)

The focus of budget requests should be on transportation policy, emphasizing what is to be accomplished and how the objectives and goals of the Department are to be achieved. This process is a necessary step, as it is at the District/Division level that the actual programs of the Department are carried out and needs are known.

Office of Local Programs determines Local Assistance Capital Outlay Budget. The budget is a estimate of what the capital outlay requirements will be for each of the local assistance programs.

4. Program Managers/Advisors Formulate Issues (June)

The program managers assign review of budget requests to the appropriate Headquarters' functional program advisors. During their review, the program advisors must take into consideration the current program definitions to make sure that the changes requested are consistent with the stated definitions.

5. Preliminary BCPs (June - July)

The main purpose of this review is to ensure that the BCP is sound and, to the greatest extent possible, will survive the review of the Department of Finance and the Legislative Analyst's Office.

6. Director's Decisions (July - August)

The Director has the responsibility to decide which BCPs will be included in the Department's proposed budget for submittal to the Department of Finance and the Business, Transportation and Housing Agency.

7. Departments Proposed Budget BT&H Agency and Department of Finance (September 15)

By September 15, the Department must submit its proposed budget to the BT&H Agency and to the Department of Finance. The proposed budget is structured by program rather than by district/division and is composed of two major parts: 1) Baseline, and 2) Budget Change Proposals.

1) The Baseline Budget provides for current programs and activities at adjusted cost levels (Price Letter information) for current and budget years, but does not include any policy or program changes.

2) The Budget Change Proposals (BCPs) are prepared in response to the Department's desire to change its programs or activities, or to increase or decrease its resources from the level in the Baseline Budget.

8. Agency Hearing (October - November)

During the months of October and November, the Secretary of the Agency, assisted by the Department of Finance, conducts meetings with representatives of the Department to review the Baseline Budget and BCPs.

9. Governor's Review (December)

The Secretary of the Agency with the Director of Finance, present to the Governor the BCPs which require Executive Office review.

10. BCPs to Legislate Analyst (December)

Copies of all BCPs included in the Governor's Budget are forwarded on December 15, to the Legislative Analyst's Office by the Department of Finance.

11. Governor's Budget/Budget Bill (January 10)

On January 10, the Governor submits to the Legislature a budget containing itemized statements of recommended sources and uses of resources for all Departments and activities in the State. This is the printed budget and is referred to as the Governor's Budget.

12. CTC Response to Legislature (February)

Chapter 1106, Statutes of 1977, (AB 402), requires the CTC to submit annually to the Legislature an evaluation of the Governor's Budget and the adequacy of resources available to the Department.

Office of Local Programs reviews the proposed local assistance budget and provides input on the adequacy of the proposed budget to meet the needs of the local assistance program.

13. Legislative Analyst's Report (February)

The Legislative Analyst reviews the Governor's Budget and prepares its report, 'Analysis of the Budget Bill', which is issued in February.

14. Response to Legislative Analyst's Report (March - April)

After the Legislative Analyst's Office issues its report, "Analysis of the Budget Bill", the Department prepares responses to the issues raised in the Report.

15. Budget Amendments (April)

When there is a need for adjustments to the Governor's Budget, the Department prepares a written request to the Department of Finance (called a Finance Letter). Agency and the Department of Finance reviews the requests and decides which requests, if any, should be sent to the Legislature as revisions to the Governor's Budget.

16. Supplemental Leave Analyst's Report (March - April)

After the Legislative Analyst has reviewed outstanding issues and received input from the Department, the "Supplemental Analysis of the Budget Bill" is prepared.

17. Legislative Review (April)

The Financial Committee of each House appoints subcommittee and assigns them review responsibility for portions of the Budget Bill. After completion of its hearing, each subcommittee prepares a report with recommendations on its assigned positions of the Budget Bill and presents it to its respective financial committee for action.

18. Governor signs Budget Bill (June 30)

The Budget Bill becomes the Budget Act after it is passed by both Houses and signed by the Governor.

19. Office of Local Programs receives local assistance budget allocation. (July)

Office of Local Programs compares the allocations in the Budget Bill to what was requested earlier. Allocations are then divided among the different local assistance programs.

13.2 PROGRAM MANAGEMENT

Part of the responsibilities of the Program Management Branch of the Office of Local Programs, working with Local Programs Accounting, is to ensure individual program allocation are used effectively and that actual expenditures are within the appropriations made in the Budget Act.

BUDGETED FUNDS

The expenditures of budgeted funds can be spread over several years. There are two important concepts to be considered when talking about expenditures:

- **Availability:** the time period during which budgeted funds may be committed for a purpose, whether by payment or by encumbrance.
- **Liquidation:** the period of time following the end of availability when an encumbrance may be paid off. Liquidation may occur during the availability period.

13.3 PROJECT EXPENDITURES

As noted in Chapter 1, “Introduction/Overview” of this manual, the legislature has created many different State funded local assistance programs to help finance local transportation projects. Because each of the programs were developed to meet different purposes, the reimbursement process varies from program to program. Each program chapter outlines the reimbursement process for that program. In addition, there is the CTC “Financial Guidelines”, attached as Appendix A, that supplements the reimbursement process for several of the programs.

AGREEMENTS

In general, once the Budget Bill is signed by the Governor, the State local assistance funds allocated for that fiscal year are available for expenditure. The key element that has to take place with all the State funded local assistance programs before any expenditures can take place is the execution of an “Agreement”. Depending on the program this could involve a Master Agreement, Program Supplement Agreement and/or a yearly specific agreement for the funds allocated for that fiscal year, see chapter 4 “Agreements” in the *Local Assistance Procedures Manual*.

More than one local agency has lost out on State funds for their project because they did not execute an agreement in a timely manner. In the Budget Act or when the programs are established by legislation most of the programs have set “Availability” periods for when the funds are available for encumbrance. To encumber the funds, it requires the **execution** of an agreement. Just having an agreement issued by OLP does not guarantee that funds will remain encumbered for a project. If an agreement is not returned before the end of the availability period then the funds that were encumbered will have to be disencumbered and transferred to another project or program that can use the funds before the end of the availability period.

Local Agencies are advised to make sure that when they receive an agreement that they execute the agreement in a timely manner. In addition, local agency should read through the individual program guidelines outlined in the following chapters so that they are aware of cutoff dates for the availability of the funds. As part of reengineering District Local Assistance Offices no longer have the staff to monitor agreements, local agencies are now responsible for tracking their own agreements.

INVOICES

Even with a executed agreement there is no guarantee that the encumbered funds will always be there. Most State local assistance programs have set “liquidation” periods establish by legislation or in the Budget Act. Therefore, local agencies are advised to submit invoices in a timely manner or not receive all the funds that were encumbered for their project. In addition local agencies should read through the individual program guidelines outlined in the following chapters so that they are aware of liquidation time limits. Again as part of reengineering District Local Assistance Offices no longer have the staff the monitor project progress, local agencies have been delegated this responsibility.

13.4 FUTURE FINANCING RECOMMENDATIONS.

Even with the difference in the reimbursement process for each program, most will find that these processes are far simpler than the reimbursement process required for Federal-aid programs. Even though these processes might be simpler that does not mean they are perfect. If you think that there might be areas for improvement, we would welcome your suggestions. As you read the guidelines for each of the different programs you will note that most of the programs have had changes to the procedures and processes. These changes came as a result of recommendations made by those of you that utilize the programs.

Recommendations can be made directly to the District Local Assistance Engineer, to the Office of Local Programs, or through legislative representative in your area. Some of the major changes to the reimbursement process have come from recommendation made via the various organization, like: Coalition of Self-help Counties, League of California Cities and County Engineers Association of California. You are encouraged to discuss and work with these organization on any changes which you think should be made.